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FM AMEMBASSY COTONOU
TO RUEHC/SECSTATE WASHDC 9268
INFO RUEHZK/ECOWAS COLLECTIVE
RUEHFR/AMEMBASSY PARIS 1041
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UNCLAS SECTION 01 OF 02 COTONOU 000135

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DEPT FOR AF/W (DBANKS), AF/EPS
PARIS FOR D'ELIA
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TAGS: EPET ETRD ECON EINV KCOR PGOV BN
SUBJECT: NIGERIA'S SHORTAGES AID BENIN'S EFFORT TO CRACK DOWN ON SMUGGLED GASOLINE
REF: A) LAGOS 92, B) ABUJA 164, C) LAGOS 54, D) 06 COTONOU 543

COTONOU 00000135 001.2 OF 002

¶1. (SBU) SUMMARY: Recent gas shortages in Nigeria are helping to shift gasoline consumption patterns in Benin from the black market to the legitimate, and taxed, retail sector. Street vendors of "kpayo" were compelled to shut down in late January due to the sky-high price of gas smuggled in from Nigeria. Responding to price and availability concerns, consumers, who previously bought 70-80 percent of their fuel on the black market, switched in massive numbers to legitimate retail outlets. At first, massive lines resulted, despite GoB efforts to weaken the kpayo market through measures to keep prices affordable and to encourage retailers to expand their distribution networks, retail stations were not up to the task, and hours-long lines formed. After a few days, however, the crisis abated, as kpayo shortages eased, and as retail networks more efficiently met demand. It appears the crisis has shifted a considerable percentage of Benin's fuel consumption into the legitimate retail market. This shift will likely endure as long as the price differential between smuggled and legal gasoline remains moderate. The government will continue its efforts to curb gas smuggling and improve the petroleum products distribution system. In a related development, Chevron and state-managed petrol distributor Sonacop have found a solution to their long-running business dispute. END SUMMARY.

RUNNING ON EMPTY: THE FIGHT AGAINST SMUGGLED GAS

¶2. (U) Normally, unofficial gasoline distribution networks involving street-side vendors who sell smuggled gas ("kpayo") from Nigeria in glass bottles, meet 75 percent of Benin's demand. In a market where price-sensitivity is virtually the sole criteria for most buyers, the low prices vendors charge trump concerns over the questionable quality of "kpayo". This price differential is a consequence of the easy availability of gasoline smuggled from Nigeria, where the subsidized pump price is around 50 cents a liter. Even with the costs involved in smuggling operations, in late 2006, kpayo prices hovered around 70 cents a liter (350 fCFA) while the price for legal gas was 83 cents a liter (415 fCFA)

¶3. (U) When the Yayi government attempted, in June 2006, to crack down on "kpayo" (REF D), two problems immediately became apparent. One was the economic impact of forcing consumers to switch to more expensive legitimate gas supplies. The other was the total inadequacy of Benin's retail gasoline distribution network. According to Mr. Gerard Dogbe, Chevron Country Manager for Benin and

Togo, there are currently 35 gas stations in Cotonou and its suburbs serving a population of over one million, versus about 135 in Lome, Togo (a smaller city). Many of these stations, particularly those run by state-managed distributor SONACOP, rarely had adequate supplies for sale.

REFORM EFFORTS MAKE SOME HEADWAY

¶4. (U) Since then, the GoB has undertaken a number of measures to improve gasoline distribution. It extended state-management of previously-privatized SONACOP, which was originally imposed in March 2006, in large part to ensure that adequate distribution of gasoline across the nation can be maintained. It has also exonerated gas station equipment from import duties and simplified the permitting process to encourage the construction of new gas stations. Several distributors, particularly Oryx, a Swiss company that has its own fuel depot at the Port of Cotonou, have taken advantage of these measures, and opened small "sidewalk" gas stations (each with a maximum capacity of 5000 liters) at various roadside locations in Cotonou. These mini-stations have helped relieve the pressure on major stations to some extent, but have also created a traffic hazard when they are located on heavily used roads. The GoB also took steps to reduce the pump price differential between pumped gas and "kpayo", by reducing the taxes imposed. This led, in January 2007, to the government-regulated price, set monthly, to drop to 80 cents (400 fCFA) per liter.

¶5. (SBU) Dogbe said Chevron would not build small roadside gas stations as they do not meet Chevron's corporate standards, but said Chevron would like to extend its retail network if it could purchase land at a reasonable price. According to Dogbe, the cost of building new full-size stations remains prohibitive, with a 2,000 meter plot of land in Benin costing $400,000 - $600,000 (200 - 300 million fCFA) compared to $36,000 (fCFA 18 million) for a recent purchase in Togo.

NIGERIA'S GAS CRISIS TIPS THE BALANCE

¶6. (SBU) Then, in late January, Nigeria's gasoline supply crisis (REFS A-C) meant that supplies of "kpayo" in Benin were sharply reduced. "Kpayo" became very hard to find, and the price for available stocks soared to 1000 fCFA ($2) per liter, more than double Benin's pump price. While caught off guard by the rapidity at which events unfolded, the GoB was as ready as it would ever be, with the price reduction just coming into effect, and several of the sidewalk gas stations having just opened the same week. Nonetheless, retailers struggled to deal with an unprecedented run on their supplies (made worse since Benin, unlike Togo, has no national strategic reserves of gasoline), and hours-long lines snaked out of every gas station in the country.

¶7. (U) In recent weeks, the situation has stabilized somewhat. "Kpayo" is once again widely available, but at a higher price (390 fCFA) than before the recent crisis. Combined with the reduction of the pump price to just 400 fCFA, "kpayo" now enjoys a much-reduced competitive advantage. To judge by the steady trade at the newly-established service stations, a significant shift in consumption has occurred toward the legitimate market. Making such a shift permanent, however, will depend on continued reliability of supplies at service stations. During a trip in northern Benin Feb. 13-15, the DCM discovered that supplies outside of coastal urban areas are still spotty, with several stations reporting that they had run out of gas to sell.

PROGRESS ON RESOLVING CHEVRON DISPUTE WITH SONACOP

¶8. (SBU) Mr. Dogbe also provided an update on the status of the Chevron-Texaco dispute with SONACOP, Benin's former parastatal and largest distributor of petroleum products. SONACOP, under provisional state management since March 2006, has agreed to compensate Chevron for the 22 million liters of Chevron's gas (worth

$6.7 million) that it stole in early 2005, when it was being run as a privatized company. The compensation is given by waiving throughput charges for gasoline Chevron stores in SONACOP facilities, and this fee waiver will be continued until the amount is repaid. To date, SONACOP has waived approximately $1.2 million in throughput fees. The former owner-operator of the company, Mr. Sefou Fagbohoun, remains in prison awaiting trial on charges that include the Chevron affair.

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